

October 31, 1997

TO: Parties of Record

FROM: K. David Waddell
Executive Secretary

IN RE: Docket 97-00888. Universal Service Generic Contested Case

Attached are the final issues list, schedules for Phase 1 and Phase 2, the stipulation on the legal issues, and the Notice to the Parties concerning the stipulation filed by the Parties in the above captioned proceeding as determined at the Special Conference held by the Directors on October 30, 1997. Where an affirmative action is required in any of these documents, please note the due date and the method of filing. They may be different for each item. Those Parties which have already responded to the stipulation faxed to you by Mr. Welch do not need to respond again on that item.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In Re:

**Universal Service; Generic
Contested Case**

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**Docket No
97-00888**

NOTICE TO THE PARTIES OF FILING REQUIREMENT

On October 29, 1997, parties to this docket, filed an Agreed Statement of Stipulations and Contested Issues in this proceeding. Not all of the parties have had the opportunity to review the stipulation, and, therefore, have not indicated their position on these issues.¹ The Directors of the Tennessee Regulatory Authority considered this stipulation, among other things, at a specially scheduled Authority Conference on October 30, 1997. During the discussion of the stipulation, the Directors of the Authority asked if all parties to this proceeding agreed with the stipulation as filed. At that time Ms. Dana Shaffer, counsel representing NextLink Tennessee, L.L.C., stated on the record, that NextLink was in agreement with the stipulation. Counsel for AT&T Communications of the South Central States, Inc., stated that he had not had the opportunity to review the stipulation and was not prepared to state if AT&T intended to be bound by it.

¹ The parties that have agreed to this stipulation are as follows:

1. Time Warner Communications of the Mid-South, L.P.
2. BellSouth Cellular Corp.
3. BellSouth Telecommunications, Inc.
4. Tennessee Cable Telecommunications Association
5. United Telephone Southeast, Inc.
6. Sprint Communications Company, L.P.
7. MCI Telecommunications Corporation
8. Citizens Telecommunications Company of Tennessee, L.L.C.
9. Citizens Telecommunications Company of the Volunteer State, L.L.C.
10. Coalition of Small LECs and Cooperatives

After these statements were made on the record, it was determined that the Directors of the Authority, and the signatory parties to the stipulation must be informed by those parties who have not yet affirmatively indicated either agreement, disagreement or partial agreement with the stipulation to do so by the close of business on November 7, 1997. Therefore, the parties who have not yet indicated their position as to the stipulation filed herein, by either being a signatory to the stipulation, or provided oral affirmation at the October 30th Conference, must file with this Authority, a document that either indicates agreement, disagreement, or partial agreement. If the party indicates only partial agreement, those issues of the stipulation with which the party disagrees must be stated with particularity, and as complete a reason for disagreement as possible should be stated.

The filing party must serve a copy of this document upon all parties of record in this proceeding.

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In Re:

**Universal Service; Generic
Contested Case**

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**Docket No
97-00888**

STIPULATION OF THE PARTIES OF ISSUES TO BE BRIEFED

Comes now, AT&T Communications of the South Central States, Inc., BellSouth Cellular Corp., BellSouth Telecommunications, Inc., Ben Lomand Rural Telephone Cooperative, Citizens Local Exchange Carriers, Coalition of Small LECs and Cooperatives, Office of the Attorney General Consumer Advocate Division, DeKalb Telephone Cooperative, Inc., Electric Power Board of Chattanooga, GTE Mobilnet, MCI Telecommunications Corp., NEXTLINK Tennessee, North Central Telephone Cooperative, Time Warner Communications of the Mid-South, Twin Lakes Telephone Co., United Telephone-Southeast and Sprint Communications L.P., West Kentucky Rural Telephone Cooperative Corp., Yorkville Telephone Cooperative, the Tennessee Municipal Telecommunications Group, TCG MidSouth, Inc., and Tennessee Department of Environment, interested parties in this matter, and submit their statement of stipulation as to the issues requiring briefing in this matter before the Tennessee Regulatory Authority, as follows:

Stipulation: The above-named parties agree that issue numbers 2, 3, 4, 6, 10, 11, 12, 13, 14 and 15 do not require the presentation of oral testimony at

hearing, and instead, necessitate briefing by counsel appearing before the Authority in this matter and / or the filing of pre-filed direct testimony.

The parties agreement to this stipulation is indicated by the signature of counsel:

AT&T Communications of the South
Central States, Inc.

BellSouth Cellular Corp.

BellSouth Telecommunications, Inc.

Ben Lomand Rural Telephone
Cooperative

Citizens Local Exchange Carriers

Coalition of Small LECs and
Cooperatives

Office of the Attorney General Consumer
Advocate Division

DeKalb Telephone Cooperative, Inc.

Electric Power Board of Chattanooga

GTE Mobilnet

MCI Telecommunications Corp.

NEXTLINK Tennessee

North Central Telephone Cooperative

Time Warner Communications of the
Mid-South

Twin Lakes Telephone Co.

United Telephone-Southeast and
Sprint Communications L.P.

West Kentucky Rural Telephone Cooperative
Corp.

Yorkville Telephone Cooperative

Tennessee Municipal Telecommunications
Group

TCG MidSouth, Inc.

Tennessee Department of Environment and
Conservation

Bledsoe Telephone Cooperative

Highland Telephone Cooperative, Inc.

UNIVERSAL SERVICE

DOCKET 97-00888

PHASE 1 SCHEDULE

October 30, 1997	TRA Decision on Issues and Schedules Discovery Requests Made (if necessary)
November 5, 1997	Discovery Responses Due (if necessary)
November 12, 1997	Direct Testimony and/or Briefs Due
December 2, 1997	Rebuttal Testimony and/or Reply Briefs Due
December 8-12, 1997	Hearings
January 2, 1998	Post Hearing Briefs (if necessary)
January 13, 1998	TRA Decision on Phase 1 Issues

PHASE 2 SCHEDULE

January 13, 1998	TRA Conference: Directors Discuss any Changes to the Phase 2 Schedule
January 30, 1998	Telcos File Universal Service Cost and Revenue Data
February 2, 1998	Staff Technical Conference: Cost Methodologies to be Employed in Phase 2
February 6, 1998	Discovery Requests Due
February 23, 1998	Responses to Discovery Requests Due
March 6, 1998	Direct Testimony Due
March 13, 1998	Rebuttal Testimony Due
April 6 -9, 1998	Hearings
April 17, 1998	Briefs Due (Optional)
May 5, 1998	TRA Decision on Phase 2 Issues
May 15, 1998	Compliant Cost Studies Due
May 22, 1998	Comments on Final Cost Studies
June 2, 1998	TRA Decision on Universal Service Costs and Remaining Issues

Attachment 1

Universal Service Issues Docket 97-00888

I. Phase I - Non-Cost Issues

1. Define and determine what services are to be supported by a Tennessee universal service support system?
 - a. Do we use state or Federal defined services? 1(a)(i)
 - b. Should we provide support in addition to Federal mandated services? 1(a)(ii)
 - c. What are the universal service core elements? 5(a)(iii)
 - d. Does Tennessee Relay Center need to be addressed in this proceeding? 14(a)(iii)
 - e. Do public interest payphones, if determined to be necessary, need to be addressed in this proceeding? 14(a)(i), 14(a)(ii)
2. Will all carriers be able to provide all elements of universal service? 1(b)(i)
 - a. How should the TRA address “exceptional circumstances?” 1(a)(iii)
3. What carriers/providers are eligible to receive support?
 - a. What procedures will TRA use for designating ETC. 2(a)(ii)
 - b. Should those companies not under TRA authority be designated as an ETC? 2(a)(iv)
 - c. Should the TRA adopt the Federal advertising guidelines? 2(a)(v) and 2(a)(vi)
 - d. Should the TRA adopt the Federal facilities requirements? 2(a)(vii)
 - e. Must a carrier participate in this proceeding to be eligible for designation as ETC? 2(a)(xi)
 - f. What procedure is necessary to ensure that rural carriers satisfy notice of status requirement? 2(b)(vi)
4. Define carrier of last resort designation.
 - a. Is this term still relevant? 2(a)(ix)
 - b. If so, how do we designate? 2(a)(ix)
 - c. Can a carrier of last resort withdraw service and if so how? 2(a)(x)

5. Define service areas.
 - a. How does the TRA designate service areas for rural and nonrural areas? 2(a)(i)
 - b. Should ETC be required to provide services throughout its designated service area? If so, what services must the ETC provide? 2(a)(iii)
 - c. Should rural carriers be required to file proposed service area and can others comment on that filing? 2(b)(ii)
 - d. Determine if there are any unserved areas in Tennessee. 2(b)(i)
6. What carriers/providers must provide support under a Tennessee universal service system?
 - a. Define telecommunications carrier. Is the TRA required to use the Federal definition? 3(a)(i)
 - b. Does state or Federal law require contributions or participation from carriers not under TRA authority? 2(a)(ii), 3(a)(ii)
7. How do we determine if rates are affordable?
 - a. If current rates are set using existing statutes, are rates considered affordable? 4(a)(iv)
 - b. Must the TRA use Federal standards for affordability? 4(a)(i)
 - c. If so, how should the TRA gather information, what information should be gathered, and how should the TRA apply the Federal standards in this case? 4(a)(ii) and 4(a)(iii)
8. How does the TRA define implicit and explicit subsidies?
 - a. Define implicit and explicit subsidy. 4(a)(vi)
 - b. How does the TRA determine implicit subsidies in current rates? 4(a)(vii)
 - c. How does the TRA make implicit support explicit as defined by the Act and the FCC? 4(a)(viii)
9. Preliminary cost modeling issues.
 - a. Should universal service cost studies be company-specific or generic?
 - b. What is the proper territorial scope of universal service rates (e.g., statewide by carrier, by service area, or by category of support? 4(a)(v)

- c. What is the proper level to which deaveraging should be applied in the cost studies? 5(a)(v)
 - d. Should rural and non-rural study areas be combined or separated in the cost studies? 5(a)(iv)
 - e. Which network components are necessary to provide services included in universal service?
 - f. Should universal service cost studies be based on cost studies for permanent UNE prices?
 - g. Should costs be developed on a combined or intrastate basis?
 - h. Should state specific or federal factors be used in the cost studies?
 - i. Is it possible to create a hybrid model from the individually proposed models?
 - j. Which revenues should be included in the revenue benchmark? 5(a)(vi)
 - k. What time period should be used to calculate the revenue benchmark?
10. How should the TRA determine the basis for support for “low income consumers?”
- a. Should the TRA change its existing Lifeline program? 6(a)(ii)
 - b. What standards and procedures should be adopted to address waiver requirements to the no-disconnect rule? 6(a)(iii)
 - c. What funding mechanism should be adopted to fund Lifeline and Linkup? 6(a)(v) and 9(a)(iii)
11. What support in addition to the Federal support already adopted by the TRA should be provided to schools and libraries?
- a. The TRA should state specifically what discounts are available in Tennessee and at what levels. 7(a)(i), 7(a)(ii) and 7(a)(iii)
 - b. How does the TRA address pre-discount price complaints? 7(a)(iv)
12. What support should be provided to health care providers?
- a. Should the TRA provide support in addition to that provided for by the Act and the FCC? 8(a)(i)
 - b. If so, who should pay for it and how? 8(a)(ii)
13. How should the TRA monitor provision of supported service to determine if support is being used as intended until competition develops. 2(a)(viii)

- a. Does the TRA need cost allocation rules or accounting safeguards to determine that services supported do not bear more than a reasonable share of joint and common cost or otherwise unnecessarily subsidize a service? 9(a)(iv)
- 14. Are any changes in state laws or rules needed? 1(b)(ii)
 - a. Is there a conflict between federal statute provision that universal service support should be explicit and the Tennessee statute requirement? 4(a)(ix)
 - b. How does the TRA reconcile state universal service statute with federal statute on “sufficient” universal service funding. 9(a)(i)
 - c. Will rules have to be changed to allow various regulatory schemes to provide for recovery of any universal service contributions? 11(a)(ii)
 - d. Will rules have to be changed to allow transition for carriers operating under various regulatory schemes? 12(a)(i)
 - e. If legislation is needed to appoint third party administrator it must be obtained. 13(a)(vi)
- 15. Should the access charge reform issues be incorporated into the schedule addressing Phase II of the universal service proceeding?

Phase II - Cost Issues

- 16. What cost model or method should be adopted to calculate needed universal service supports? (Likely to be contested) 5(a)(vii), 14(b)(i) and 14(b)(ii) Note: the word “method” is used to mean “algorithm(s) and input value(s).”
 - a. What method should be used to population distributions within service areas?
 - b. What method should be used to match a model’s wire center line count to a LEC’s existing wire center line count?
 - c. What method should be used to determine the proper outside plant mix (i.e., the fractions of aerial, underground, and buried cable) and associated materials and installation costs?
 - d. What method should be used to determine drop lengths and associated costs?
 - e. What method should be used to determine structure sharing (e.g., poles, trenches, conduits)?
 - f. What method should be used to determine the most economically efficient fiber-copper cross-over point?

- g. What loop design standards, if any, should be adopted for the cost model?
- h. What size(s) of digital loop carriers should the model incorporate?
- i. What wireless threshold, if any, should the model use?
- j. What method should be used to determine the materials and installation costs of manholes, poles, anchors, guys, aerial cable, building attachments?
- k. What method should be used to determine NID costs?
- l. What method should be used to determine the cost of investment and installation of service area interfaces?
- m. What method should be used to determine cable fill and utilization factors?
- n. What method should be used to determine the mix of host, stand-alone, and remote switches?
- o. What switch capacity constraints, if any, should the model employ?
- p. What method should be used to determine switching investment costs?
- q. What method should be used to determine the portion of total interoffice trunking, signaling, and local tandem costs to be attributed to universal service?
- r. What method should be used to determine costs of general support facilities (e.g., vehicles, land, buildings)?
- s. What method should be used to determine the economic depreciation rate of assets?
- t. What method should be used to determine plant-specific (e.g., equipment and maintenance), non-plant-specific (e.g., engineering, network operations), customer service (e.g., marketing and billing), and corporate (e.g., legal and accounting) expense factors?
- u. In which cases is it appropriate to allocate costs between the provision of universal service and all other services?
- v. In cases where it is appropriate, what method should be used to allocate costs between the provision of universal service and all other services?
- w. What, if any, local usage component should be included in universal service support?
- x. What is the proper cost and percentage of equity?
- y. What is the proper cost of debt?

17. How should cost model or methodology be applied? 5(a)(viii)

- a. What is the cost of universal service?
- b. What should be the amount of support in a Tennessee universal service support system?
- c. What should be the Tennessee specific revenue benchmark?

- d. How should cost be related to revenue benchmark and rates determined? 5(a)(ix)
 - e. How will contracts between LECs be treated? 14(a)(v)
18. During the transition period should rates be rebalanced? If so, how?
- a. How will the TRA handle financial effects on carriers who have been providing support to existing system? 12(a)(ii)

Phase II - Administrative Issues

19. Should the TRA adopt new quality of service standards? 1(a)(iv)
20. How will affordability of rates be monitored in the future?
 - a. Will the TRA want ongoing reports on subscribership levels, etc.? 4(a)(xi) and 4(a)(xiii)
 - b. Does the TRA need special procedures to hear complaints on affordability? 4(a)(xii)
21. What should be the sources of support in a Tennessee universal service support system?
 - a. What base will be used to determine amounts paid into the system for support of the universal service fund? (i.e., end-user telecommunications revenues) 9(a)(ii) and 9(a)(v)
22. How may universal service support contributions be recovered by the carriers/providers making them?
 - a. Can carriers contributing to universal service fund recover those payments and if so how? 11(a)(i)
23. How should the transition from the current system to the new system take place.
 - a. What standards and criteria should govern the transition? 12(a)(vi)
 - b. What information, cost studies, etc. should be gathered as transition occurs? 12(a)(iv) and 12(a)(v)
24. How and by whom should a Tennessee universal service support system be administered and monitored?
 - a. Can providers that make both contributions and receive support off-set those in supporting the fund? 12(a)(iii)
 - b. Can TRA designate third party administrator or must it administer the fund itself? If so, how is administrator chosen? If not, should a division within agency be created? 13(a)(i), 13(a)(iii), and 13(a)(v)

- c. What duties will be separated between administrator and the TRA Directors? 13(a)(iv)
 - d. Should the TRA determine the cost of personnel, equipment and facilities needed by the administrator and build that cost into universal service fund? 13(a)(ii)
25. How will the TRA make sure the universal service system is nondiscriminatory and competitively neutral?
- a. Does the TRA need to develop specific guidelines to ensure nondiscrimination and neutrality? 10(a)(i) and 10(a)(ii)
 - b. How should TRA handle complaints that system is discriminatory and not competitively neutral? 10(a)(iii)
26. When will universal service be addressed again? 14(a)(iv)